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Bloc Economic Warfare

The Central Intelligence Agency devotes considerable time and effort to the preparation of intelligence on Bloc economic activities in the Free World. Our organizational structure for meeting this problem has been flexible. Thus the internal organization has been revised from time to time as the nature of the Bloc's international activities has been altered. Always, however, specific groups in the Agency have been assigned specific responsibility for preparation of intelligence on the economic cold war.

At the present time intelligence reporting on this subject is done principally by two branches in the Office of Research and Reports. Other branches in ORR and other parts of the Agency provide considerable support for the two branches that are directly responsible for covering Bloc economic activities. One, the Trade Controls Branch has

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been in existence for several years. Once a much larger group, it has been reduced in size as the trade control problem has dwindled in importance. The other, the Trade Branch covers all aspects of Bloc trade both with other members of the Bloc and with the Free World. One section of the Trade Branch has as its sole responsibility coverage of economic penetration of the underdeveloped countries. This is a fairly recent addition to our organizational structure, being formed about 3 years ago when the Bloc appeared to be embarking on a long-run program of economic penetration of the underdeveloped countries.

Our Trade Controls Branch provides departments, agencies, and the interagency committee structure of the U.S. Government with intelligence support for the development, application, and enforcement of policies, plans (including mobilization planning for economic warfare),

and programs concerning international and U.S. security export controls and other related economic defense measures against the Sino-Soviet Bloc. The branch draws upon the resources of other specialized research groups in CIA. This intelligence for estimating the significance of certain Free World commodities, technology, and services to the war potential of the Bloc is collated and presented to an appropriate interagency committee responsible for the formulation of policy and the administration of strategic export controls.

There are two major interagency committees involved in the control of strategic exports, both of which have subgroups at various administrative levels. One committee deals with problems concerning multilateral export controls and their enforcement, and the other committee handles problems relating to unilateral export controls

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and their enforcement. The CIA participates in an advisory capacity at each level of these committees up through the National Security Council.

One type of intelligence presented to the Committee on Multilateral Controls deals with the supply position and use pattern of commodities within the Sino-Soviet Bloc. These reports are intended to aid in developing and revising the international lists as well as determining the effect of granting exceptions shipments of embargoed materials to the Bloc. Intelligence is also prepared for this committee dealing with possible diversions to the Sino-Soviet Bloc. These reports are primarily intended for the use of the action agencies of the U.S. Government in enforcing multilateral controls and have been useful in breaking up the pattern of diversion of strategic commodities to the Sino-Soviet Bloc, and in

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assisting the work of U.S. and Free World enforcement agencies.

U.S. unilateral controls, as you are aware, are broader than the multilateral controls. The principal intelligence contribution to the committee on unilateral controls deals with Sino-Soviet Bloc supply and use pattern. The enforcement of these controls is a direct responsibility of the Department of Commerce and there is no official interagency organization for providing assistance in this enforcement task. However the Department of Commerce Investigation Staff receives CIA intelligence reports on a selective basis and maintains close liaison with CIA.

A large part of the work on Soviet penetration is done on an interagency basis. Periodic reports are prepared for general dissemination throughout the government by an interagency group consisting of representatives from the Department of State, Commerce, and Agriculture, the ICA

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and the military agencies, as well as CIA. The State Department and the military agencies contribute to the substance of the reports, while the other Departments and Agencies contribute only in an advisory capacity. Although there is no rigid division of responsibility among the agencies and departments active in the preparation of reports on Bloc economic penetration there is a workable division of labor. The State Department and the CIA have approximately equal roles in analyzing Bloc economic activities in the underdeveloped countries. But the State Department bears considerably more responsibility for political analysis than does the CIA. Both CIA and the military departments prepare reports on Bloc arms arrangements with Free World countries. The military departments, however, are concerned primarily with the physical units involved, while the CIA is concerned more with the financial aspects of the arms agreements. Thus, the military prepares all estimates on such matters as illicit trading of Bloc arms.

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The Soviet penetration group in the CIA, jointly with the Department of State, prepares periodic reports for the President's cabinet. It also submits on request information studies to the Committee on World Trade Practices, a group consisting of business executives and corporation officials and organized for the purpose of devising a coordinated effort to combat Bloc economic penetration.

The major way in which economic and political intelligence relating to Soviet penetration are coordinated is in the preparation of National Intelligence Estimates. An estimate is published annually in which Bloc economic activities and capabilities are related to Bloc foreign

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policy objectives and motivations. This report, too, is an interagency product and is disseminated by the CIA to the National Security Council as well as to other high officials in policy making positions.

Although we have assigned responsibility for covering Bloc economic penetration to a group specially organized for this work, in practice we do not make a clear and concise distinction between normal trade and economic penetration. This is due to two reasons. First, while a clear distinction can be made in the abstract between the concept of normal and of politically inspired trade it is very difficult to apply the distinction in the actual operation of intelligence research. Second, in the case of Communist Bloc all foreign economic activities have some political overtones. This, as you know has been stated many times in various ways in Communist literature.

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In 1950, for example, Mikoyan said "Just as economics are inseparable from politics, so the USSR's foreign political relations are inseparable from its foreign trade relations." Thus, while some trade is primarily aimed at satisfying an economic need, it will probably be negotiated in such a place or in such a way as to serve political ends. A sterling example of politically inspired negotiations for the acquisition of some commodities which the USSR is in any event going to import is to be found in the Khrushchev letter of last spring to President Eisenhower. The letter stated at some length that the international atmosphere would be lightened if more trade took place between the US and USSR. It suggested that the USSR wanted to purchase equipment for its consumer goods industries, specifying many categories, and that it would be willing to export such materials as magnesium to pay for these imports.

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There is little doubt that the USSR will purchase increasing amounts of machinery and equipment for its chemicals, iron and steel industries over the course of the seven year plan. But since it intends to do this anyway, why not collect the assorted political and propaganda gains potential in the existing state of world affairs on the way? In terms of the prime goal, the acquisitions of modern technology in use in Western chemical and related industries, the USSR is indifferent whether it acquires the machinery in the US, the UK, France or Germany. If, however, as the result of negotiations between heads of governments, it can give its purchase program the appearance of a permanently expanded volume of commerce in both directions, it would achieve a degree of respectability in world affairs which has been denied it by the existence of Western trade controls, and its trade and aid program in underdeveloped countries

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would thus be facilitated. There was nothing to be lost in writing the letter and potentially much to be gained.

Thus, while some of the international economic activities of the Soviet Bloc are stimulated primarily by economic motives, others are aimed primarily at political gains, but in most actual cases the two are intermixed.

On the basis of observation we have concluded that the trade of the USSR and China are more inclined to be politically inspired than that of the Satellites. One cannot fail to note how astutely the USSR exploited the Arab's frustration at the Western arms embargo both to endear themselves to a large segment of the Arab population and to acquire a significant share of the Egyptian market. Or how the USSR has augmented the political tensions in Latin America by offering to barter badly needed oil for unsold Latin American exports. An incident that is still unsettled is a

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clear manifestation of the way in which China adapts its foreign trade to its political aspirations. After negotiating an exchange agreement with industrialists in Japan amounting to nearly \$200 million, China suddenly placed an embargo on all trade with Japan, a transparent move intended to force the Kishi government in Japan to extend a greater degree of recognition to China. The rice-rubber agreement with Ceylon under which China paid premiums for rubber totaling more than \$50 million over a five year period was also motivated by obvious political aspirations, in this instance a desire to break Western trade controls. The USSR, as the leading

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country in the Bloc, and China, as a potential contender for supremacy within the Bloc, and anxious to create a sphere of influence in Asia, have greater stakes than the Satellites in the political cold war and China has the special incentive of gaining greater recognition on the world scene. The Satellites, on the other hand, have concrete economic problems for which international trade seems to offer a solution.

In general, too, we believe that Bloc trade with the underdeveloped countries is more likely to have political overtones than is trade with the industrialized countries of the Free World. The latter have many items which Bloc countries find most useful in fulfilling their plans for economic growth. Bloc export availabilities are of the type that generally are more readily marketable in relatively unindustrialized countries.

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Thus while we can identify the political motivations entailed in a given instance of Soviet commercial negotiation, we cannot distinguish which part of the ensuing contracts result from improved political relations and which part would have developed with the normal growth of trade. Today nearly 50 percent of Egypt's cotton exports are purchased by the Sino-Soviet Bloc. But even prior to the Bloc's onslaught against the markets of the underdeveloped economies, China, the USSR and Eastern Europe all purchased Egyptian cotton to satisfy domestic requirements. Expanding imports of cotton would have accompanied the Bloc's emphasis on consumer well-being after 1953 and would have entailed expanded imports from Egypt even without a policy of economic penetration.

In summary, then, since operationally it is impossible to say, for example, that 40 percent of Soviet exports to

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India are politically inspired while 70 percent of Soviet imports from India are commercially motivated, and since the Soviet Bloc always tries to kill 2 birds - one political and one economic - with every international transaction, we have in practice defined the sphere of responsibility of our Soviet penetration section geographically. This section of the Trade Branch is responsible for intelligence relating to all Soviet Bloc economic activities in the underdeveloped countries of the West, no matter how motivated.

Even without attempting to distinguish which part of the Bloc's economic penetration activities in underdeveloped countries is motivated by political ends, however, we have encountered rather formidable difficulties in estimating the magnitude of Bloc economic assistance to underdeveloped countries. Considerable information is usually available regarding the amounts of economic

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assistance which Bloc countries promise to deliver to Free World countries. Soviet agreements in particular are widely publicized, especially when large lines of credit are extended. Surely by now, a large portion of the population of the Free World must know that Afghanistan has received a \$100 million credit and Egypt a \$175 million credit from the USSR. More important for our purposes, however, the actual texts of many of the large agreements have been released. But even when no value figures are announced, sufficient information is usually available so that we can estimate the approximate total cost and the foreign exchange component of an economic assistance agreement. The cost of the petroleum refinery Czechoslovakia is building in Syria, for example, was estimated in part on the basis of information we obtained from a Free World corporation whose bid on the project was rejected.

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Thus we are confident that our estimates of the value of economic assistance promised by the Bloc to underdeveloped countries ^{are} ~~is~~ fairly accurate. We believe that our estimate of the total is within 5 percent of the correct figure and that our estimates ^{any one} ~~for individual~~ countries ^{is} ~~are~~ no more than 10 percent in error.

The confidence that we have in our estimates of Bloc performance on assistance agreements is considerably less than this. We have attempted to determine the value of assistance actually delivered as well as the sums of money drawn. So far, however, we have not been willing to publish anything more than an estimate of the minimum amount of ~~a~~ assistance actually provided. Such an estimate is of some value, but it provides inadequate answers to several pressing questions. In particular, it does not enable us to determine the amount of indebtedness or the rate of loan

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amortization of a country receiving credits from the Bloc.

The major cause of the difficulty in assessing the implementation of Bloc assistance agreements is the lack of information. Debt statements and ministerial reports of recipient countries occasionally are helpful. Officials in India are often quite candid in discussing Soviet projects with U.S. personnel. But this is exceptional; in most countries, such discussions provide little solid information, reveal ^{little} pertinent data. Generally, we must rely on delivery or shipping notices and clandestine reports on construction progress. With these types of information we contrive rough estimates of money expenditures. In certain cases, we have no information of any sort on the rate of progress on projects we are fairly certain have been started. Thus, because of these shortcomings in the available information our estimates of

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implementation involve a considerable degree of speculation.

Occasionally, we have been questioned about the validity of expressing value figures on Bloc assistance in terms of Free World currencies. These questions are based in part on a mistaken impression of the manner in which our estimates are derived. Most of the economic assistance for which the Bloc is committed, has been extended under publicly announced economic assistance agreements. These agreements usually stipulate the total amount of assistance in terms of some Free World currency. Dollars and pounds sterling are the currencies most frequently quoted. In a relatively few instances, the only available information on the value of an assistance agreement is expressed in roubles. We have always converted these figures to Free World currencies at the

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official exchange rate of 4 roubles equals 1 dollar, because we regard this as a realistic ratio for Bloc foreign trade prices. Assistance agreements generally call for prices to be based on current quotations in Free World markets, a procedure that is usually followed in Bloc foreign trade even in the absence of a specific agreement to do so. Thus, there is no serious problem involved in expressing the value of Bloc economic assistance in Free World currencies. Whether the USSR extends a credit of \$100 million or 400 million roubles the recipient will be able to buy from the Soviets approximately the same volume of goods it would obtain from an expenditure of \$100 million in the Free World.

Estimations of the value of military assistance involve considerably greater difficulties than estimates of economic assistance. The publicity attending the signature of an

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economic assistance agreement is notably absent from the negotiation of military agreements. For the most part estimates must be based on data assembled from large numbers of reports on the quantity of specific types of equipment shipped, delivered, or observed. When Bloc prices of specific military items are available we use them to convert our estimates of physical units to value terms. In some instances, we have had to use U.S. prices for similar items in order to arrive at an estimate for total military assistance. Consequently, these estimates may be considerably in error. We believed that our estimates in terms of physical units are reasonably accurate, but we are aware that our estimates in terms of value may be in *in the amount of 25% or more* error *as much as* by 25 percent or more.

The most significant consequence of having value estimates that are not entirely satisfactory is that we

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cannot determine with precision the financial indebtedness to the Bloc of those countries receiving Bloc military assistance. There would be much intelligence significance, for example, in a reliable determination of the amount of cotton Egypt is shipping each year in repayment for the arms it has gotten from the Bloc. The difficulties involved in determining the indebtedness, especially in the case of Egypt, are compounded by the fact that some of the arms delivered have been obsolete, some have been sold at a discount, and some apparently have been given without charge. Moreover, some of the Bloc arms shipped to Egypt and Syria have been sent on to be used in other areas. Although we believe that the amount involved is small, we are not certain who ultimately will pay for the goods.

Along with economic and military assistance the Bloc has provided a tremendous number of technical specialists. Our estimates of the numbers involved are based almost entirely on

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Because of the nature of the information with which we work, we make our estimates on the basis of those men in a country during a given period. We avoid one possible pitfall by including in our count only those technicians who are in a country for at least one month. On the other hand we have discovered no method of deflating our estimate when technicians are rotated during an accounting period. Thus, under our system, if a Russian engineer works on the Bhilai steel mill from January through March and is replaced by a second engineer in April, we estimate two Russian engineers were in India during the 6 month period. In fact, however, India would have received the services of only one engineer for the period. This particular bias in our system is accentuated when the period of coverage is an extended one. Thus, our estimates for a full year exhibit a greater bias than our estimates for 6 months.

In any event, a quantitative analysis reveals only a part of

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the relevance of technical assistance and probably the less important part. A Russian officer giving advice to the Egyptian army at the staff level is of far greater significance than two dozen Bulgarians constructing airfield hangars on the Syrian desert. And the advice given the Burmese Government by a small Soviet agricultural mission has more real impact than the shovel and pick axe work of 100 semi-literate Tadzhiks employed on a road-building project in Afghanistan.

Thus, while we devote considerable time in estimating the number of Bloc specialists working in underdeveloped countries, we are far more interested in what they do and what they accomplish. We attempt to determine whether Bloc personnel are engaged in subversion and whether they are associated in any way with local Communist groups. We are interested in their relations with indigenous populations, in particular with their fellow workers. We want to know whether Bloc technicians have capabilities in

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in native languages. Probably of greatest importance, we are keenly interested in the technical abilities of the Bloc specialists, for the ultimate impact of the economic penetration effort may depend in large measure on the quality of the technical assistance and training provided by these men.

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Collection of trade data is considerably simplified by the fact that most Free World countries issue periodic reports on the value and pattern of their foreign commerce. Thus, we do not have to depend solely on Communist [orbit] sources for data on Bloc trade with Free World countries. Statements issued by Bloc countries, as well as information
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obtained [REDACTED] provide a means of checking on our normal sources. We have found that the Bloc countries, the USSR in particular, generally give accurate information when they overcome their reticence and issue factual statements regarding their economic relations with the Free World. The precise meaning of their utterances is often obscure, but when the bombast has been removed and the true sense discerned, their statements are often quite revealing. Thus, when there is a discrepancy between an estimate we have made on the basis of official

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Free World compilations and a claim made by a Bloc country, we do not automatically assume that the Communists are lying.

Our estimate of Soviet shipments of machinery and transport equipment to underdeveloped countries in 1956, for example, was approximately 20 percent the amount claimed by the USSR. The sum involved was not large - the USSR claimed that these shipments amounted to less than \$30 million - but it was a significant matter inasmuch as Soviet exports of these items had been less than \$1 million in previous years. The discrepancy between the Soviet figure and our estimate, we ultimately concluded, was probably a matter of item classification. Underdeveloped countries often have rather untidy or inexact customs procedures. Even when a standard classification system is used, customs officials are frequently lax in establishing proper criteria to be used by their operating personnel. Indian practices are particularly

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annoying in this respect. In their official reports of commodity imports as much as two-thirds of total imports from the USSR have been listed in the "all other", an unspecified category. Since among the underdeveloped countries India is a major customer of the Bloc, the errors in India's commodity reporting may have considerable impact on our estimates of total Bloc trade.

Other underdeveloped countries have similar bad habits.

Most of them publish trade data in a very leisurely fashion. None is up to date in releasing statistics on commodities. No country includes in its reports shipments of military items. Finally, countries which have multiple exchange rates, such as Egypt and Argentina, cause particular difficulties when we attempt to evaluate their trade in terms of dollars.

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Thus, while the official government reports on trade are useful they fail to provide all of the information that we need. We must supplement official data with information obtained through other channels. This is especially true, of course, in the preparation of intelligence for trade controls, where illegal transactions frequently are involved.

Reports on Bloc trade are often useful in pointing to, or confirming our belief about, economic weakness in the Bloc. It is revealing, for example, that the USSR has exported virtually no manufactured consumer goods to the Free World. Soviet efforts to obtain machinery of the latest design in Western Europe often are the result of lagging technology in certain industries in the USSR. Of particular significance, so far as penetration of underdeveloped countries is concerned, is the relative technological lag in the Soviet textile machinery industry.

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Thus, an Egyptian purchasing mission in the USSR recently was extremely impressed with some textile machinery which it observed and insisted that the Soviets install that particular type of equipment in Egypt. The machinery the Egyptians mission was expecting had been imported from the United Kingdom, however, and since the Egyptians declined to accept equipment of Soviet design, the Russians agreed to sacrifice their own British designed factory.

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One can easily exaggerate the economic weakness in the Bloc, however, especially when the weaknesses are in terms of specific commodities.

In the first place some of the weaknesses in the Bloc economies may be turned to the Bloc's advantage. Underdeveloped countries often find technologically simple machinery, which the Bloc mass-produces, more useful than the more advanced, and complex, equipment in which Free World countries specialize. Untrained workers can learn simple processes far more quickly than they can learn complicated jobs. More important, the supervisory personnel available in underdeveloped countries can manage capably plants that have fairly simple machine installations; large cadres of foreign supervisory labor might be required for factories of the latest Western design.

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In the second place, commodity studies of Bloc foreign trade will never reveal anything more than specific soft spots in the production pattern. This type of information is interesting and has certain limited uses, but it is grossly inadequate as an indicator of the overall capability of the Bloc to achieve its objectives in the cold war. The basic capability of the Bloc is revealed only in a close survey of its economic structure and its production and growth characteristics.

Thus, we believe that the basic structure of the Soviet economy and the rate of growth of production are such that the USSR can maintain an active and growing role in world commerce and ^{that will} support its policy of economic penetration. The pertinent facts

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are the \$170 billion dollars of current gross national product and the 6-7 percent annual growth rate. We think that institutional characteristics, in particular the bilateral nature of Soviet trade, the isolation of the Soviet price structure, and the inconvertibility of the rouble, may ultimately cause some problems in the Free World trade of the USSR. But, these problems will grow out of strength rather than economic weakness, much as the problems of U.S. foreign trade, inherent in the persistent dollar shortage in the world, have grown out of U.S. strength. The problems that are potential for the USSR, in short, will become actual only when the Soviets have gained a substantial position in world commerce. At the present time, in fact, the bilateral, barter nature of Soviet trade is an asset, largely because of the international liquidity problem with which most rapidly developing economies are faced.

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Thus, in order to determine Bloc economic weaknesses and strengths, we look primarily to domestic production capabilities. We have concluded that the immense and rapidly expanding production capacity of the USSR, complemented by the Satellites and to an increasing extent by China, will enable the Sino-Soviet Bloc to continue at a high level and even to expand its economic activities in the Free World.

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